

AR23

LOCHIEL Exploration Ltd.



1973 annual report

YEAR ENDED JANUARY 31, 1973

DIRECTORS

THOMAS E. DAVIS
Executive, Ampex Corporation, Menlo Park, California

MERVYN S. DEVONSHIRE
Partner, Devonshire, Munro & Co., Chartered Accountants, Calgary, Alberta

ROLAND B. DODWELL
Investment Dealer, Walwyn, Stodgell & Co., Limited, Toronto, Ontario

WILLIAM J. MAJOR, Q.C.
Partner, Major & Caron, Barristers & Solicitors, Calgary, Alberta

STANLEY L. MELTON
President, Melton Real Estate Ltd., Edmonton, Alberta

NICHOLAS W. TAYLOR
President of the Company, Calgary, Alberta

WILLIAM A. WORK
Secretary of the Company, Calgary, Alberta

OFFICERS

NICHOLAS W. TAYLOR, President

STANLEY L. MELTON, Vice-President

WILLIAM A. WORK, Secretary

MERVYN S. DEVONSHIRE, Treasurer

ALBERT H. PFEFFER, Controller

HEAD OFFICE

550 - 6th Ave. S.W., Calgary, Alberta T2P 0S2

REGISTRARS AND TRANSFER AGENTS

GUARANTY TRUST COMPANY OF CANADA
311 - 8th Ave. S.W., Calgary, Alberta and
366 Bay Street, Toronto, Ontario

BANKERS

THE TORONTO-DOMINION BANK, Calgary Place, Calgary, Alberta

BANK OF MONTREAL, 140 - 8th Ave. S.W., Calgary, Alberta

AUDITORS

TOUCHE ROSS & CO.
600 - 6th Ave. S.W., Calgary, Alberta

SOLICITORS

MAJOR & CARON
600 - 6th Ave. S.W., Calgary, Alberta

SHARES LISTED

TORONTO STOCK EXCHANGE

CALGARY STOCK EXCHANGE

HIGHLIGHTS

	1973	1972
Gross Revenue	\$ 515,000	\$ 619,000
Cash Flow	209,000	300,000
— Per Share	4.0¢	5.6¢
Net Income (loss)	90,000	138,000
— Per Share	1.7¢	2.6¢
Land Holdings		
— Gross Acres	12,850,107	11,354,184
— Net Acres	5,285,219	5,641,374

to the shareholders:

THE HIGHLIGHT of 1972 activities was the Company's entry into the much talked about "North Sea play". Lochiel gained representation in three concession blocks strategically located in active exploration areas. The first offshore well to test part of our acreage is planned for the fall of 1973.

Efforts in expanding to other international areas resulted in acquisition of concessions in Cyprus, in the eastern Mediterranean, and Ghana, on the west coast of Africa, as well as further additions to acreage held in Italy and Sicily.

In western Canada Lochiel continued an aggressive land acquisition program, as well as exploration of its land inventory in Alberta. During the year under review, the Company participated in the drilling of 8 wells in Canada, of which 3 were completed as gas wells, 2 as oil wells and 3 were abandoned.

Exploration in Canada's Arctic saw the industry make several new discoveries increasing reserves to the extent that this area may contain some of the most prolific and important energy reserves on the North American continent. Lochiel's holdings in the frontier areas of the Arctic and Eastcoast assure your company of a share in the development of these areas.

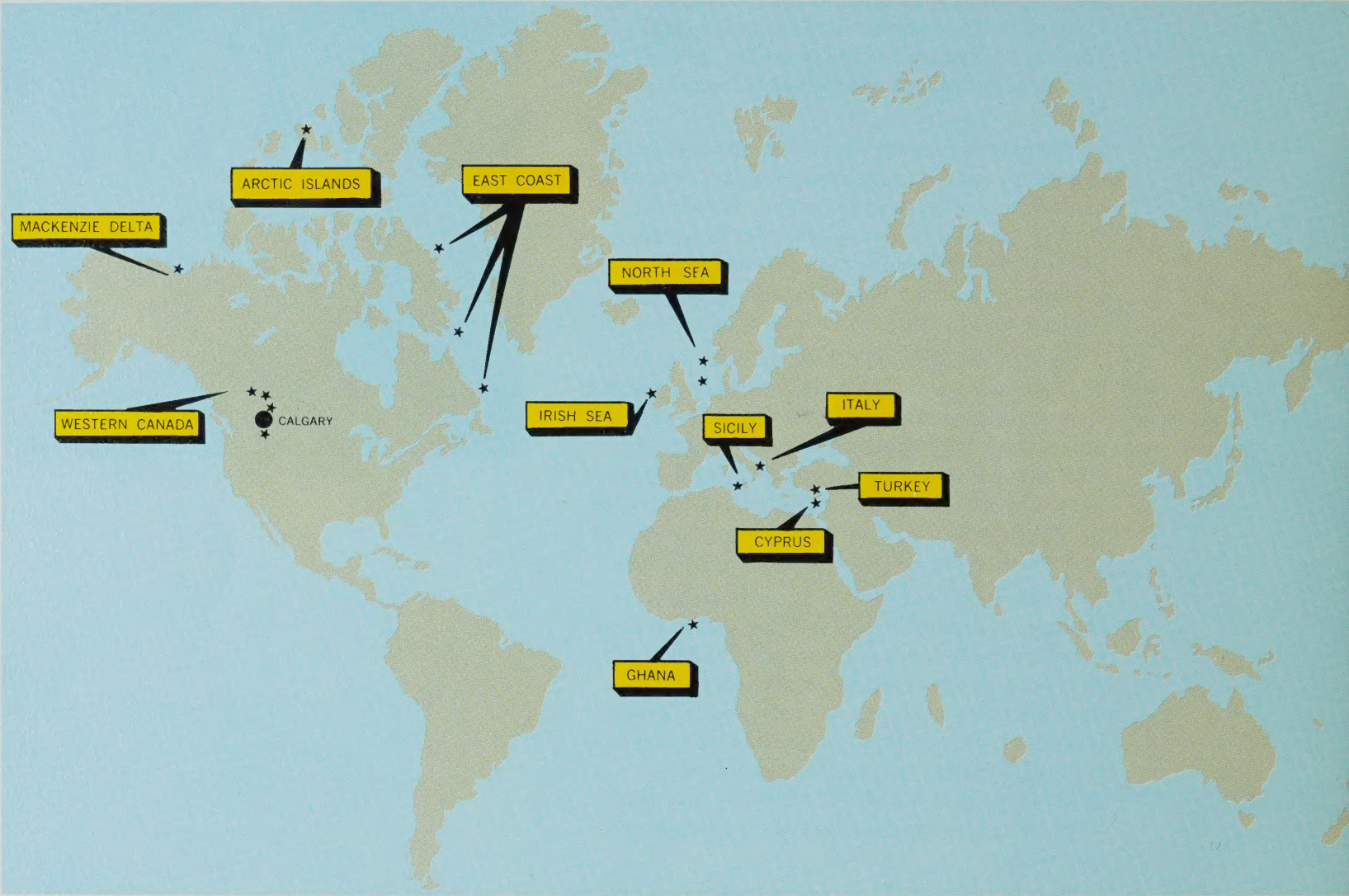
In the Arctic, gas wells continue to be brought in around King Christian Island where your company has a substantial interest. Each well adds to the reserves needed to permit a pipeline to be built. As our company's interest is an override position convertible to a carried working interest, the waiting period for marketing, be it 4 years or 10 years, will not cost the company development and exploration dollars.

Your Board feels that our company has laid a very solid base in the frontier areas with carried interests in many exploration programs around the world. We will continue to pioneer and develop these but in addition we plan to step up domestic drilling with the objective of building our cash flow from oil and gas production.

On behalf of the Board
NICHOLAS W. TAYLOR
President



NICHOLAS WILLIAM TAYLOR



Lochiel expanded its holdings significantly during 1972 with several new acquisitions in several countries around the world. The widespread holdings are evident from the following tabulation of acreage holdings at January 31, 1973:

	<u>Gross Acres</u>	<u>Net Acres</u>
Arctic Islands (1)	3,225,011	1,497,906
Pacific Offshore (1)	2,103,484	751,340
Beaufort Sea -		
Mackenzie Delta	1,723,880	54,918
Yukon Territory	385,608	5,784
Northwest Territories	162,184	81,092
East Coast Offshore	2,853,800	2,371,643
Alberta	324,383	158,832
Saskatchewan	1,600	284
North Sea	166,074	11,329
Italy/Sicily	604,506	222,133
Cyprus	545,017	54,502
Ghana	754,560	75,456
	<u>12,850,107</u>	<u>5,285,219</u>
Comparative holdings, Jan. 31/72	<u>11,354,184</u>	<u>5,641,374</u>

(1) includes acreage under application

financial review

Revenue from sales of crude oil and natural gas decreased by 17 percent over last year to \$514,997. The decrease was mainly due to lower demand for gas by TransCanada Pipe Lines, which in 1971 purchased gas in quantities substantially above contracted maximum rates. Cash flow and net income were \$209,002 and \$89,548 respectively. Working capital increased slightly during the year to \$355,679. During 1972 the Company received \$781,000 on a net basis as a result of farmouts of Arctic properties. This sum represents payment for exercise and extension of options granted to Sun Oil Company and others on permits in the Arctic Islands.

On January 5, 1973 the Company made an offer to acquire all of the outstanding shares of Taiga Offshore Ltd., a private company with interests in the U.K. North Sea, and for certain properties on and offshore in Italy from Taiga Corporation. This offer was accepted. Under the terms of this agreement the Company is obligated to issue 170,000 common shares from treasury, after certain conditions have been met. On January 31, 1973 no shares had been issued under this agreement.

production review

Total volume of gas sold during the fiscal year ended January 31, 1973 was 2.7 billion cubic feet or 7,600 MCF per day, compared to 8,700 MCF per day during 1971. Crude oil production amounted to 35,385 barrels. The Company expects to increase its production during 1973 as a result of recent discoveries.

Reserves February 1, 1973 (before deduction of royalties) as prepared by our own staff:

	<u>Natural Gas</u> <u>[1,000 cu. ft.]</u>	<u>Crude Oil</u> <u>[barrels]</u>
Proven developed	41,923,700	242,935
Proven undeveloped and probable	<u>13,147,000</u>	<u>367,496</u>
	<u>55,070,700</u>	<u>610,431</u>



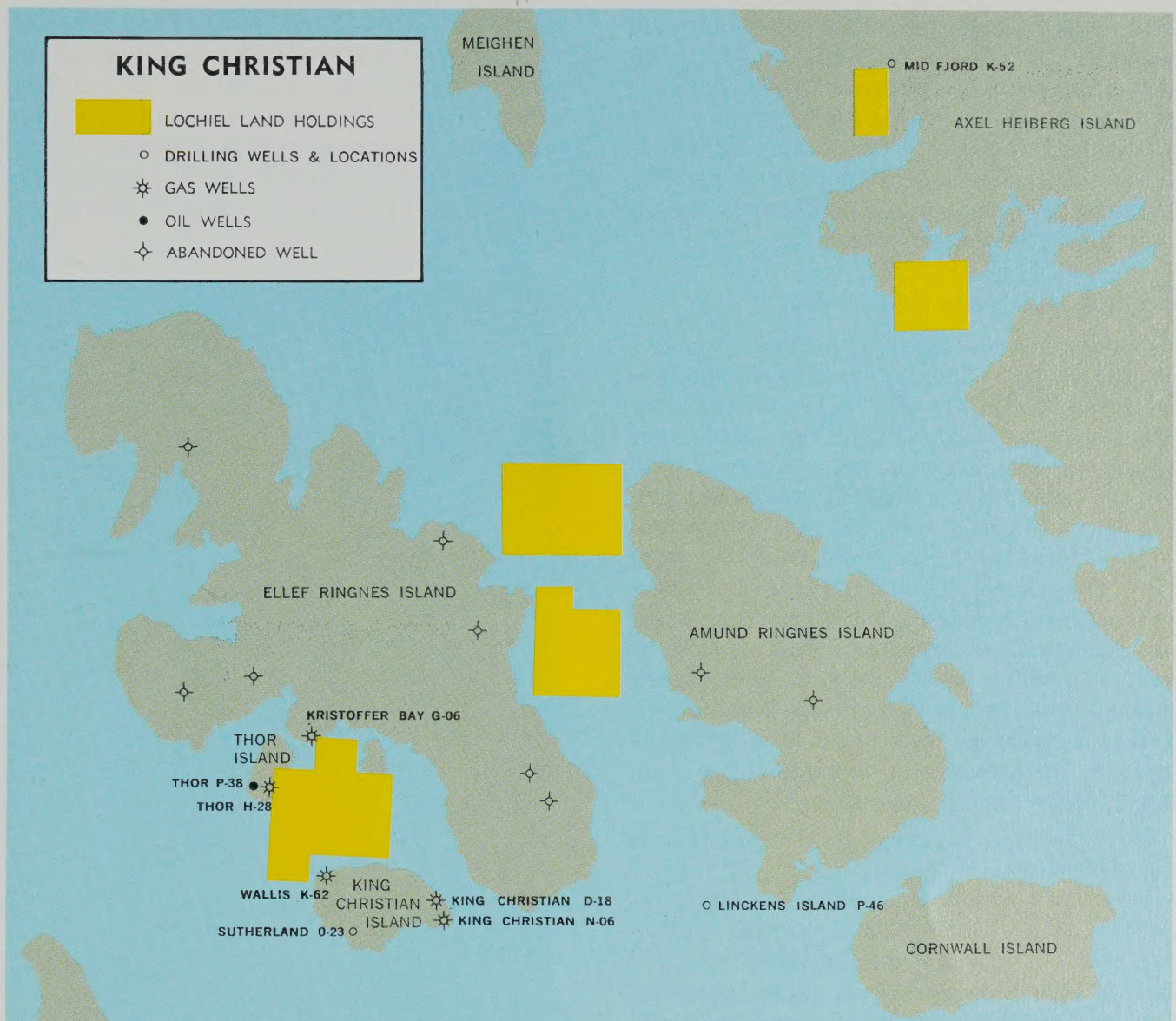
exploration review

Arctic

The 1972 - 1973 winter season was the most active exploration period in Arctic history. Panarctic Oils Ltd. added major new gas discoveries on Melville Island and an oil discovery at Thor Island to its list of successes in the central Arctic. Dome Petroleum Ltd. scored a major gas success on the west coast of King Christian Island with its Wallis K-62 well and is following up this strike on the southern portion of this same island at the Sutherland location. All of these discoveries reflect favourably on Lochiel's holdings. In particular the 279,525 acre block between King Christian Island and Ellef Ringnes Island is now offset on three sides by discoveries. The Kristoffer Bay gas discovery lies within $\frac{1}{4}$ mile of the northern boundary. The Thor Island oil discovery is located within 3 miles of the western boundary and the Wallis gas strike lies less than 3 miles from the south-western edge of this block. Lochiel retains a 3 percent gross overriding royalty in this block of acreage, which at Lochiel's option, is convertible to a 12 percent working interest after production is encountered. Conversion is on a per permit basis.

Elsewhere in the Sverdrup Basin, 1,676,000 acres of the Company's holdings are under option to Sun Oil until March 1, 1974 when Sun may extend the option for one year by paying Lochiel 20 cents per acre and performing 20 cents per acre of work, or Sun may exercise its option on all or part by paying Lochiel \$3.00 per acre.

Also, one of our parcels on the west coast of Axel Heiberg Island will be directly offset by the Drillarctic consortium, comprising a number of companies including Cities Service and Getty, which will drill a test at Middle Fjord in the near future. In the western Arctic, Lochiel lands totalling 674,950 acres are exposed to an adjoining exploration program arranged by Elf Oil on behalf of itself and several large U.S. gas transmission companies. Elf has interests in over 11 million acres in this region and its program may involve up to \$135 million for exploration and development.



Since yearend Lochiel farmed out permits totalling 1.1 million acres in the eastern Arctic to Panarctic Oils. These permits are located offshore Devon, Somerset and Melville Islands. Panarctic will satisfy government exploration obligations totalling some \$400,000. Lochiel retains a 5 percent gross overriding royalty which is convertible to a 15 percent working interest.

Geologists believe that some of the most promising structures in the Arctic are under water. Research into technology for offshore drilling in ice-infested waters of the Arctic has advanced sufficiently to enable the first attempt to be made by Panarctic in the coming 1973 - 1974 drilling season. Panarctic plans to

drill on reinforced ice with a light rig. Research and design by others of an air cushion based offshore rig has been completed to the "ready-for-construction" point.

Panarctic has been carrying out preliminary research on pipeline corridors from the Arctic to southern markets. A group of major transmission and investment companies have recently joined Panarctic in the formation of the Arctic Islands Gas Pipeline Project, which will conduct research investigations and planning of pipeline routes to markets in southern Canada.

In addition to the holdings shown on the map on page 10, Lochiel maintains an interest in approximately one million acres of federal per-

mits owned by Petromines Limited through ownership of 25 percent of the issued capital of this company. These permits lie in the western Arctic and are being explored by major companies at no cost to Petromines, which retains substantial working interest positions. The bulk of these holdings are included in the Elf Oil program described before.

Beaufort/Mackenzie Delta/Yukon

Exploratory activity by Imperial Oil, Shell Canada, Chevron Standard and the Gulf/Mobil Oil team in the Mackenzie Delta area continues to increase. Significant discoveries have been made by most of these companies. Studies of pipeline feasibility and routes are progressing favourably with present indications that gas from the Delta might flow five years from now. Research into offshore drilling methods continue. Imperial Oil has constructed an artificial island from which it hopes to drill next winter, with two more such islands planned this summer. Parts of the Beaufort Sea hold considerable promise, as marine seismic indicates the presence of large structures in an area of relatively shallow water.

Lochiel owns gross overriding royalties and carried interests in approximately 1.7 million acres in the Beaufort Sea and in 595,000 acres onshore in the Yukon. Our net carried interest will return us approximately \$75,000 this coming year due to an agreement between Sun Oil and Scurry-Rainbow Oil. During 1972 the Company obtained a 50 percent working interest onshore in 162,000 acres in the Northwest Territories in return for assuming work commitments.

Pacific Offshore

Lochiel maintains a royalty interest in 243,386 acres off the west coast of Canada. The Company has also made application for a further 1,860,000 acres on which the federal government has not issued permits to date.

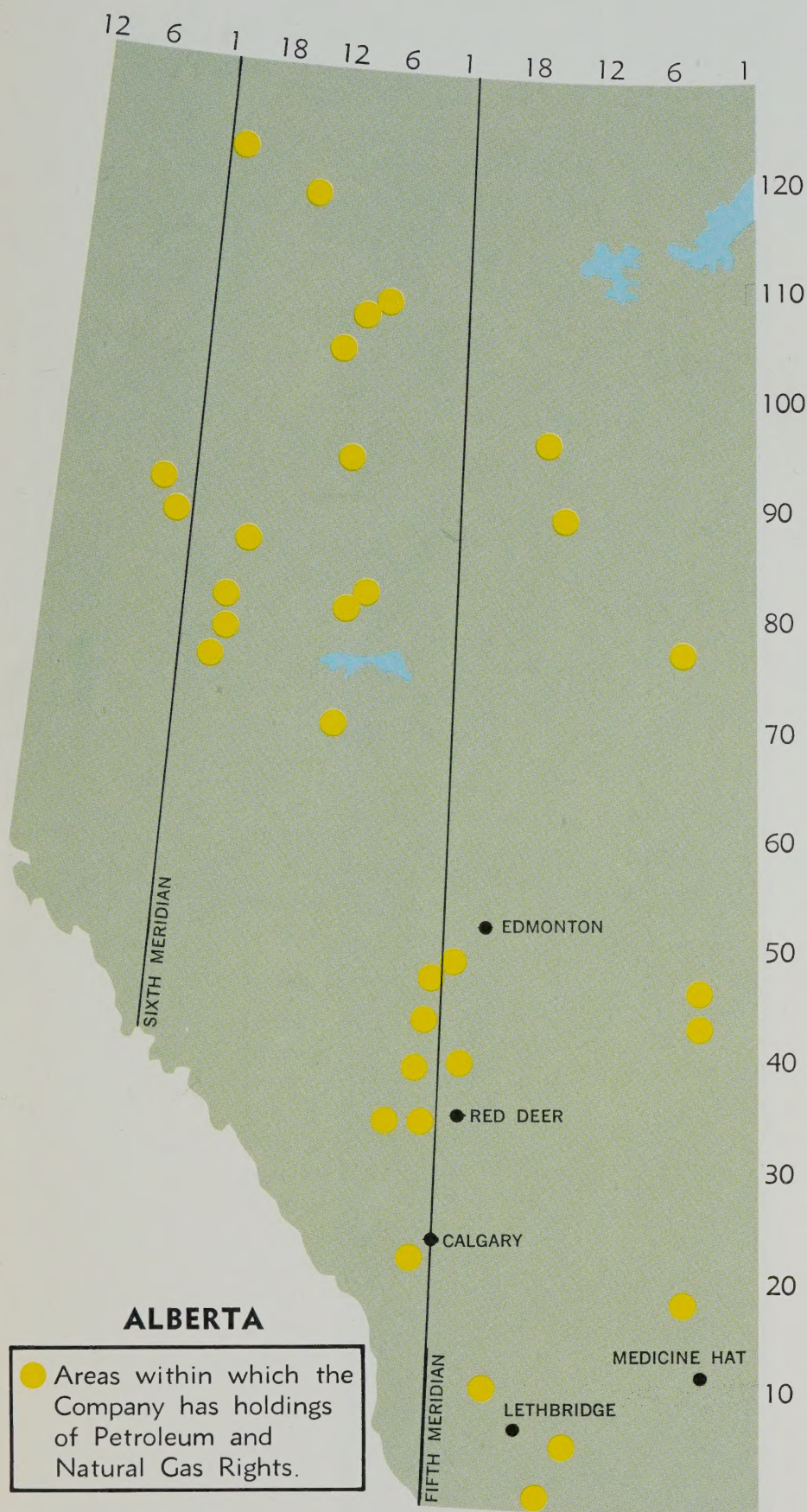
East Coast Offshore

During 1972 a regional seismic survey covering some 1,500 miles along the east coast of Canada was carried out by Lochiel and associates at no cost to Lochiel due to farming out

an interest in 1,150,000 acres. The Company holds 2.8 million acres of oil and gas permits in this vast exploration area. During 1972 drilling efforts by others resulted in two offshore discoveries in the area as well as a successful offset to the Sable Island strike in the area off the coasts of Nova Scotia and Newfoundland.



alberta



Lochiel participated in and was affected directly by a number of oil and gas discoveries in 1972. The results of some of the discoveries are being held confidential under "tight hole status" pending further developments and acreage dispositions in the areas.

Lochiel has continued to pursue an aggressive land acquisition approach in Alberta. The company now has an interest in some 140,000 acres in northern Alberta, mainly in the form of reservations. Seismic and sub surface evaluations are being conducted on the acreage, some of which may be evaluated by drilling in 1973.

Atlee

Lochiel participated with TransCanada Petroleum, now a PanCanadian subsidiary, in a successful deep test in the Atlee Buffalo area in southeast Alberta. Information on this well, TCP Lochiel Atlee 6-30-20-6W4M is presently being held under "tight hole" status pending land dispositions in this vicinity. Lochiel maintains a 50 percent interest in the well.

Garrington

Lochiel, in partnership with Barnwell and Atkinson, completed a deep test in the Garrington area in 6-32-33-2W5M. The well, which was completed last year and in which Lochiel has a 5 percent interest until payout, is being held confidential. The drilling of the well earned Lochiel a 2½ percent working interest in a nine section block held by Canadian Superior in the

area. Lochiel holds a 100 percent interest in 800 acres in close proximity to the discovery. Follow up drilling is proceeding.

Claresholm

Development drilling in the Claresholm area, in which Lochiel has a 10 percent interest, resulted in the successful completion of two potential oil wells in 11-36 and 9-36-12-26W4M. Both wells encountered oil pay in the Mississippian section with the 9-36 well flowing up to 40 barrels per hour on initial production tests.

Dixonville

Lochiel presently holds a 75 percent interest in 3 sections in the Peace River area adjacent to the recently completed Monsanto North Canadian Dixonville 9-19-87-2W5M well. This well was completed with a calculated AOF of approximately 10 million cubic feet of gas per day. Further details on the discovery are being held confidential pending further evaluation of the area.

Cadotte

Shell Oil recently completed a Gething sand gas discovery in its 10-2-86-19W5M well in the Cadotte area. The well flowed 1.9 million cubic feet of gas per day and recovered 5 feet of oily condensate on Drill Stem Test of the Gething, directly offsets 1,760 acres in which Lochiel has a 75 percent interest.

Medicine River

Atkinson and Ashland Oil successfully completed an Ostracod gas discovery in the Medicine River area in 1972 at their 6-16-38-4W5M location. The well, which flowed gas up to rates of 12.2 million cubic feet per day, directly offsets 320 acres in which Lochiel has a 50 percent interest.

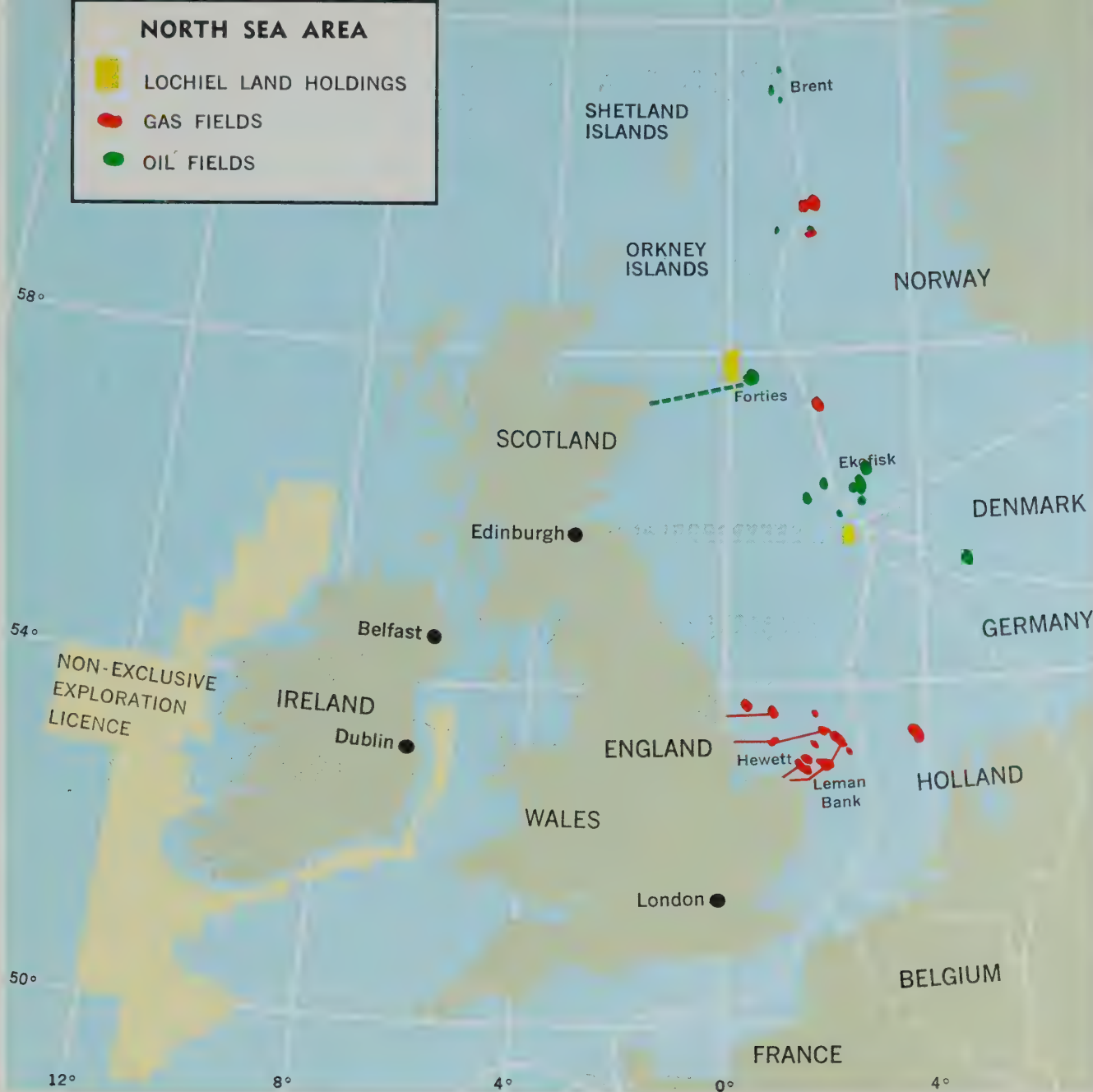
foreign

During 1973 the Company significantly expanded its international holdings in areas of large reserves potential.



NORTH SEA AREA

- LOCHIEL LAND HOLDINGS
- GAS FIELDS
- OIL FIELDS



North Sea

Entry into the North Sea play was accomplished through purchase of a one percent working interest in blocks 21/1 and 21/6 in the U.K. portion. Both of these blocks are located due west of the prolific Forties field. A planned pipeline connecting this field with the coast of Scotland will pass in close proximity. Seismic has been completed and is being interpreted. The working interest owners headed by Transworld have retained the "Western Pacesetter", a semi-submersible drilling rig, which is expected to move onto the first location in October 1973.

In January 1973 the Company acquired all of the outstanding shares of Taiga Offshore Ltd., a private U.K. company. Taiga Offshore Ltd. owns an 18 percent working interest in Block

39/1 in the North Sea, located 25 miles south of the Ekofisk oil field. Seismic has been shot and is being interpreted.

These transactions provide Lochiel with a significant exposure to the North Sea play, which is assuming important dimensions in establishing major reserves for the growing European energy markets.

Ireland

The Company continues to hold its interest in a non-exclusive license on the west coast of Ireland. During 1972 Lochiel and its Canadian partners, together with Irish investors, incorporated a private company in Ireland to carry out further exploration in anticipation of the Irish government inviting applications for exclusive licenses in the near future.

CANADIAN ARCTIC



LOCHIEL LAND HOLDINGS

◦ DRILLING WELLS & LOCATIONS

✱ GAS WELLS

• OIL WELLS

✧ ABANDONED WELLS

DRAKE POINT
AND HECLA

MACKENZIE DELTA DISCOVERIES

BEAUFORT SEA

BANKS

ISLAND

VICTORIA

NORTHWEST TERRITORIES

PRUDHOE BAY

U.S.A.
CANADA

YUKON

PRINCE
PATRICK
I.

VISCOUNT



ROMULUS

KING CHRISTIAN
AND KRISTOFFER BAY

ELLESMERE

GREENLAND

ISLAND

BAFFIN
BAY

DEVON ISLAND

LANCASTER SOUND

BAFFIN ISLAND

BOOTHIA

PENINSULA

SOMERSET
ISLAND

PRINCE
OF
WALES I.

STEFFANSSON
I.

LVILLE SOUND

CORNWALLIS
I.

BATHURST
ISLAND

VANIER I.

LOUGHEED
I.

ELLEF
RINGNES
I.

KING
CHRISTIAN
I.

CORNWALL
I.

AMUND
RINGNES
I.

AXEL

HEIBERG

ISLAND

Italy - Sicily

In the Mediterranean area, the Company continued to expand its holdings onshore and offshore in Italy through the acquisition of properties mentioned above. Lochiel now has varying interests in 604,000 acres of oil and gas rights granted by state and provincial authorities throughout Italy and Sicily. These rights are in the offshore Adriatic, onshore Italy and Sicily. The Company is actively exploring these properties in partnership with European and Canadian companies. Two wells were drilled during 1972 which were abandoned, one of which set up another prospect. Seismic evaluation, at no cost to your Company, is presently being carried out in Sicily which may result in further drilling during 1973.





Cyprus

In the eastern Mediterranean the Company acquired a 10 percent interest in a concession surrounding the island of Cyprus. These holdings comprise 545,017 acres and lie on and off-shore on the north and south coasts. Seismic surveys have been conducted over this area.



Ghana

In West Africa, Lochiel obtained a 10 percent interest in offshore concessions in Ghana. Our holdings total 75,456 net acres. This area lies to the west of the prolific oil producing areas on and offshore Nigeria in the Gulf of Guinea. Several major international oil companies have

recently made a number of large strikes off the coast of Nigeria. Some of the offshore tests in Nigeria have flowed oil at rates of 9,200 barrels per day. This has caused activity in neighbouring Ghana to increase considerably. Seismic is presently being completed on Lochiel's acreage.

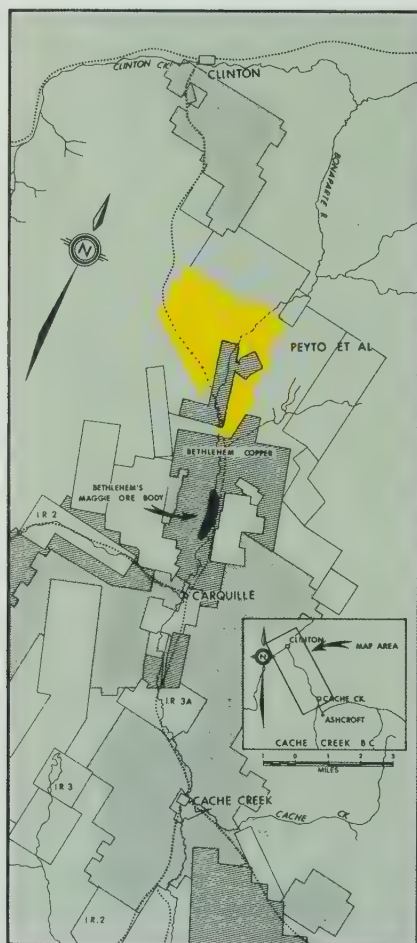
mining

Baker Lake

Reconnaissance soil sampling on the Baker Lake Uranium prospect was continued in 1972. The work was primarily a continuation of the reconnaissance geochemical surveys that the Company, in association with others, began in 1971. Coverage of approximately 10,000 acres was attained over selected areas where overburden obscured the bedrock. Assays for copper were sufficiently encouraging to possibly warrant a drilling program in the future. More detailed soil sampling may be necessary over certain anomalies for better uranium and lead determination.

Uranium demand is tied directly to the growth of nuclear power. Studies now suggest that the annual world requirements are expected to rise to 77,000 tons of U3O8 in 1980, 141,000 tons in 1985, and possibly 219,000 tons in 1990. A turn of events could come shortly whereby the present overabundance of uranium will in fact be replaced by a deficiency.

Because of this, Lochiel intends to continue to explore for and on prospective uranium properties such as Baker Lake. Lochiel's interests in the Baker Lake area vary from 8 to 20 percent.



Cache Creek

Exploration continued on the Cache Creek claims in B.C. Induced polarization reconnaissance surveys and check magnetometer work was carried out over the claims. The results have indicated that a number of anomalies occur in the area, so a number of drill targets have been selected in the area to further evaluate the property.

The acreage is strategically located approximately one mile north of Bethlehem Copper's Maggie Mine. Lochiel has a 20 percent interest in approximately 90 claims in the Cache Creek area.

LOCHIEL EXPLORATION LTD.

statement of income and deficit

For The Year Ended January 31, 1973

	1973	1972
Revenue		
Oil and gas sales	\$ 514,997	\$ 619,256
Less royalties	64,775	69,416
Net sales	450,222	549,840
Other income, net	39,491	21,396
	<u>489,713</u>	<u>571,236</u>
Expenses		
Operating — lifting costs	111,812	90,086
— lease rentals and taxes	18,352	17,584
General and administrative	91,941	81,597
Interest on long-term debt	58,606	82,467
	<u>280,711</u>	<u>271,734</u>
Cash flow from operations	<u>209,002</u>	<u>299,502</u>
Non-cash charges (Note 1)		
Depletion	83,169	104,557
Depreciation	36,285	56,521
	<u>119,454</u>	<u>161,078</u>
NET INCOME FOR THE YEAR (Note 5)	<u>89,548</u>	<u>138,424</u>
Deficit at beginning of year	(1,127,834)	(1,266,258)
Deficit at end of year	<u>(\$1,038,286)</u>	<u>(\$1,127,834)</u>
Net income per share (Note 9)	<u>1.7¢</u>	<u>2.6¢</u>

LOCHIEL EXPLORATION LTD.

balance sheet at january 31st, 1973

assets	1973	1972
Current Assets		
Cash	\$ 20,582	\$ 7,507
Term deposits	500,000	210,000
Marketable securities, at cost (market value 1973 - \$88,182; 1972 - \$92,690)	155,670	166,817
Accounts receivable	170,804	184,757
Prepaid expenses	3,252	2,323
	<u>850,308</u>	<u>571,404</u>
 Property, Plant and Equipment (Notes 1 & 3)		
At net cost	4,170,988	4,049,314
Accumulated depreciation and depletion	458,412	344,006
	<u>3,712,576</u>	<u>3,705,308</u>
 Other Assets		
Investment (Note 2)	335,580	335,083
Refundable deposits	61,708	63,282
	<u>397,288</u>	<u>398,365</u>
	 <u><u>\$4,960,172</u></u>	 <u><u>\$4,675,077</u></u>

liabilities

Current Liabilities

Accounts payable	\$ 219,629	\$ 15,526
Current portion of long-term debt	275,000	210,000
	<u>494,629</u>	<u>225,526</u>

Long-Term Debt (Note 4)

Production loans, secured	1,007,886	1,017,886
Less amount due within one year	275,000	210,000
	<u>732,886</u>	<u>807,886</u>

Participants' Advances	—	36,396
Deferred Income Taxes (Note 5)	36,957	36,957

Total liabilities	<u>1,264,472</u>	<u>1,106,765</u>
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shareholders' equity

Capital Stock (Note 6)

Authorized

10,000,000 shares of no par value

Issued

5,362,726 shares (1972 - 5,332,526 shares)	4,733,986	4,696,146
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Deficit	<u>(1,038,286)</u>	<u>(1,127,834)</u>
	<u>3,695,700</u>	<u>3,568,312</u>

Signed on behalf of the Board

N. W. TAYLOR, Director

W. A. WORK, Director

<u>\$4,960,172</u>	<u>\$4,675,077</u>
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LOCHIEL EXPLORATION LTD.

statement of sources and uses of funds

For The Year Ended January 31, 1973

Sources of Funds

	1973	1972
Cash flow from operations	\$ 209,002	\$ 299,502
Issuance of capital stock (Note 6)	37,840	78,750
Net proceeds from farmouts (Note 1)	781,916	—
Increase in long-term debt	200,000	237,500
Deposits refunded	1,574	12,015
	<u>1,230,332</u>	<u>627,767</u>

Uses of Funds

Property, plant and equipment	908,638	386,962
Reduction of long-term debt	275,000	150,615
Investment	497	28,400
Reduction in participants' advances	36,396	8,824
	<u>1,220,531</u>	<u>574,801</u>

Increase in working capital	9,801	52,966
Working capital at beginning of year	345,878	292,912
Working capital at end of year	<u>\$ 355,679</u>	<u>\$ 345,878</u>

LOCHIEL EXPLORATION LTD.

notes to financial statements

January 31, 1973

1. ACCOUNTING POLICIES

The company follows the full cost method of accounting whereby all costs relating to the exploration for and the development of oil and gas reserves, including related overhead costs, are capitalized by area of interest. Proceeds from disposal of properties are normally deducted from costs without recognition of gain or loss. During the year, the company received \$781,916 in respect of the extension and exercise of options. Except for costs related to the Arctic Islands, offshore Canada and foreign areas, all costs are depleted using the unit of production method based on estimated recoverable reserves of oil and gas. Because exploration and development in the Arctic Islands, offshore Canada and foreign areas extend over a considerable period of time, the company considers it inappropriate to include these costs, carried in the accounts at \$1,104,755, in its depletion base.

Depreciation of production equipment is computed in a similar manner, based on related reserves.

2. INVESTMENT

The investment in the amount of \$335,580 represents 897,281 shares or approximately 25% of the issued capital of Petromines Limited. 374,281 shares are subject to an escrow agreement. Market value of this investment at January 31, 1973 was approximately \$269,200, but due to the number of shares involved, market value is not necessarily indicative of the amount realizable upon sale.

3. PROPERTY, PLANT AND EQUIPMENT

	1973		1972	
	Cost or net cost	Accumulated depletion and depreciation	Cost or net cost	Accumulated depletion and depreciation
Petroleum and natural gas leases and rights, including exploration and development (Note 1)	\$3,292,348	\$284,381	\$3,164,124	\$201,212
Production equipment	871,725	170,898	871,725	134,943
Other equipment	6,915	3,133	13,465	7,851
	<u>\$4,170,988</u>	<u>\$458,412</u>	<u>\$4,049,314</u>	<u>\$344,006</u>

4. LONG-TERM DEBT

Bank production loans are secured by an assignment of the company's interest in certain producing properties. They are repayable in monthly installments of approximately \$23,000 plus interest.

5. INCOME TAXES

For income tax purposes, the company is entitled to claim drilling, exploration and lease acquisition costs and depreciation (capital cost allowances) in amounts which exceed the related charges to earnings. As a result no income taxes are payable for the current year.

The Canadian Institute of Chartered Accountants recommends the recording of corporate income taxes on the tax allocation basis for all timing differences between accounting income and taxable income. The company follows this policy in respect of timing differences relating to tangible assets, but is of the opinion that the tax allocation basis is not appropriate for timing differences related to intangible drilling, exploration and lease acquisition costs and this view conforms with general practice in the oil and gas industry.

Had the company followed the tax allocation basis in respect of intangible assets, deferred income taxes of \$31,500 would have been provided in the current year and net income reduced to \$58,048. For 1972 deferred income taxes of \$40,800 would have reduced the net income to \$97,624.

6. CAPITAL STOCK

As at January 31, 1973, 120,000 shares of capital stock of the company were reserved for issuance to employees as Incentive Stock Options at prices ranging from \$1.10 to \$1.85 per share. These options may be exercised cumulatively in equal installments commencing one year after date of option and expire in 1975 and 1976. On January 10, 1973 options for 30,200 shares were exercised for an aggregate consideration of \$37,840.

See Note 10 regarding the possible issuance of a further 170,000 shares of the capital stock of the company.

7. CONTINGENT LIABILITIES

The company has issued non-interest bearing promissory notes totalling \$851,577 in favour of various government authorities. These notes are lodged as security for commitments on exploratory permits.

8. REMUNERATION OF OFFICERS AND DIRECTORS

The aggregate direct remuneration paid to directors and officers of the company during the year is as follows:

	<u>Number</u>	<u>Amount</u>
Directors	7	\$ Nil
Officers, of whom two were also directors	3	\$64,243

9. EARNINGS PER SHARE

Earnings per share are based on weighted monthly average number of shares outstanding.

10. SUBSEQUENT EVENT

In January 1973 the company entered into agreements whereby, upon certain conditions having been met, it will acquire properties on and offshore in Italy and in Sicily from Taiga Corporation, a U.S. corporation, and in addition will acquire all of the issued and outstanding shares of Taiga Offshore Ltd., a U.K. private company with interests in the U.K. sector of the North Sea. In consideration for the acquisition of these interests, the company will issue 170,000 shares of its capital stock. In connection with this transaction the company has caused its banker to issue a letter of credit for \$200,000 which is to be cancelled when the shares are issued.

auditors' report

THE SHAREHOLDERS LOCHIEL EXPLORATION LTD.

We have examined the balance sheet of Lochiel Exploration Ltd. as at January 31, 1973 and the statements of income and deficit and sources and uses of funds for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion, these financial statements present fairly the financial position of the company as at January 31, 1973 and the results of its operations and the sources and uses of its funds for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Touche Ross & Co.
Chartered Accountants.

Calgary, Alberta
April 16, 1973

